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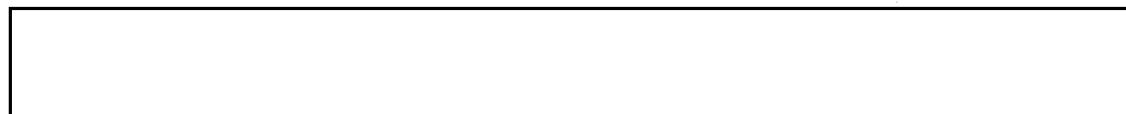
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WESTERN EUROPE

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GENERAL

1. Yugoslav UN Delegate views Malik proposal as indication of Soviet readiness for Korean settlement:

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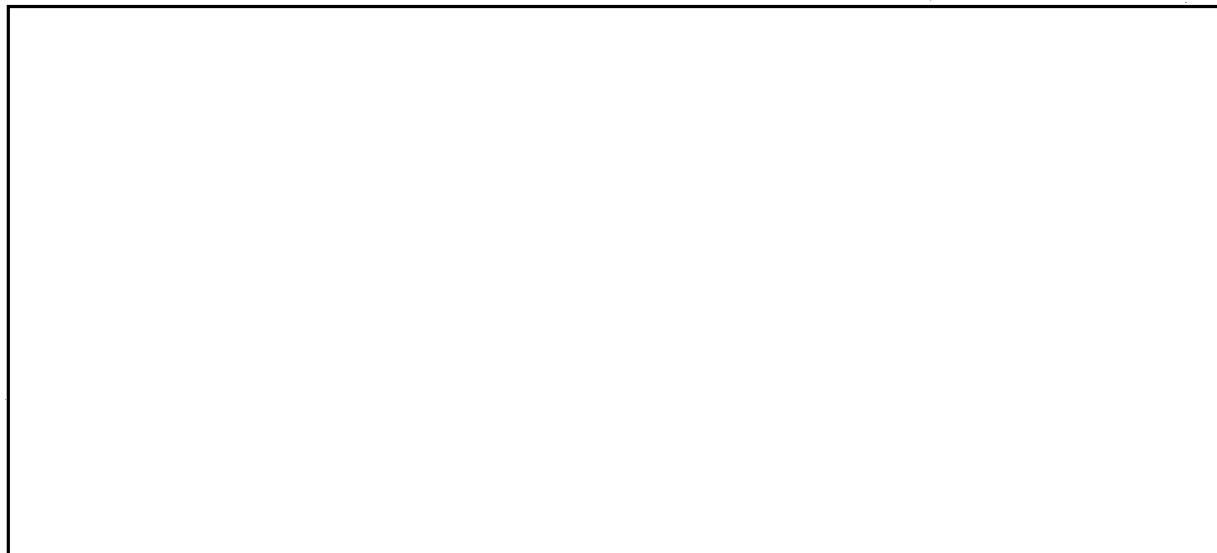
In a 27 June conversation with the US delegation, Yugoslav UN Delegate Bebler declared that Soviet readiness for a settlement in Korea was indicated by the fact that the Malik proposal had been made at all, and by subsequent Soviet press treatment accorded the proposal. Bebler warned, however, that any Korean settlement would only be a move to relieve the Kremlin from an awkward position in Korea and to free the USSR for further operations against the West in another area such as Iran or Indochina. Bebler did not think Yugoslavia had been chosen as the next target of Soviet aggression.

Comment: As reported by the authoritative Yugoslav newspaper Borba, the Foreign Ministry suggests the possibility that Malik's offer is a "peace" propaganda maneuver intended to justify further Soviet participation in the Korean conflict. The Foreign Ministry considers, however, that if the proposal is based on a sincere desire to stop the Korean war, it affords proof of the failure of the entire policy supported and organized by the Soviet Government during the past year.

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3. Status of foreign oil companies in Indonesia discussed

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Although the Iranian oil controversy has provoked much discussion in Indonesia regarding the status of foreign oil companies, such discussion has focused on

the means of increasing the government's income from oil operations rather than on nationalization itself. To this end, the Economic Minister reportedly has agreed to a parliamentary proposal that a national committee be formed to examine all matters affecting oil operations in Indonesia and to reconsider present mining laws. The committee will reportedly consider: (a) a requirement that oil companies be domiciled in Indonesia so that they will be subject to additional taxation, (b) the appointment of Indonesians as managing directors, and (c) a very substantial increase in exploration and exploitation lease rates. The major Indonesian dissatisfaction with existing contracts, however, centers on provisions exempting oil companies from foreign exchange regulations.

Comment: Although the Communist Party and its affiliated organizations will continue to urge

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nationalization of the oil industry in Indonesia -- which is completely foreign controlled -- there is little likelihood that the present government will adopt such a policy.

NEAR EAST

4. Iran allegedly aiming sabotage law at Communists:

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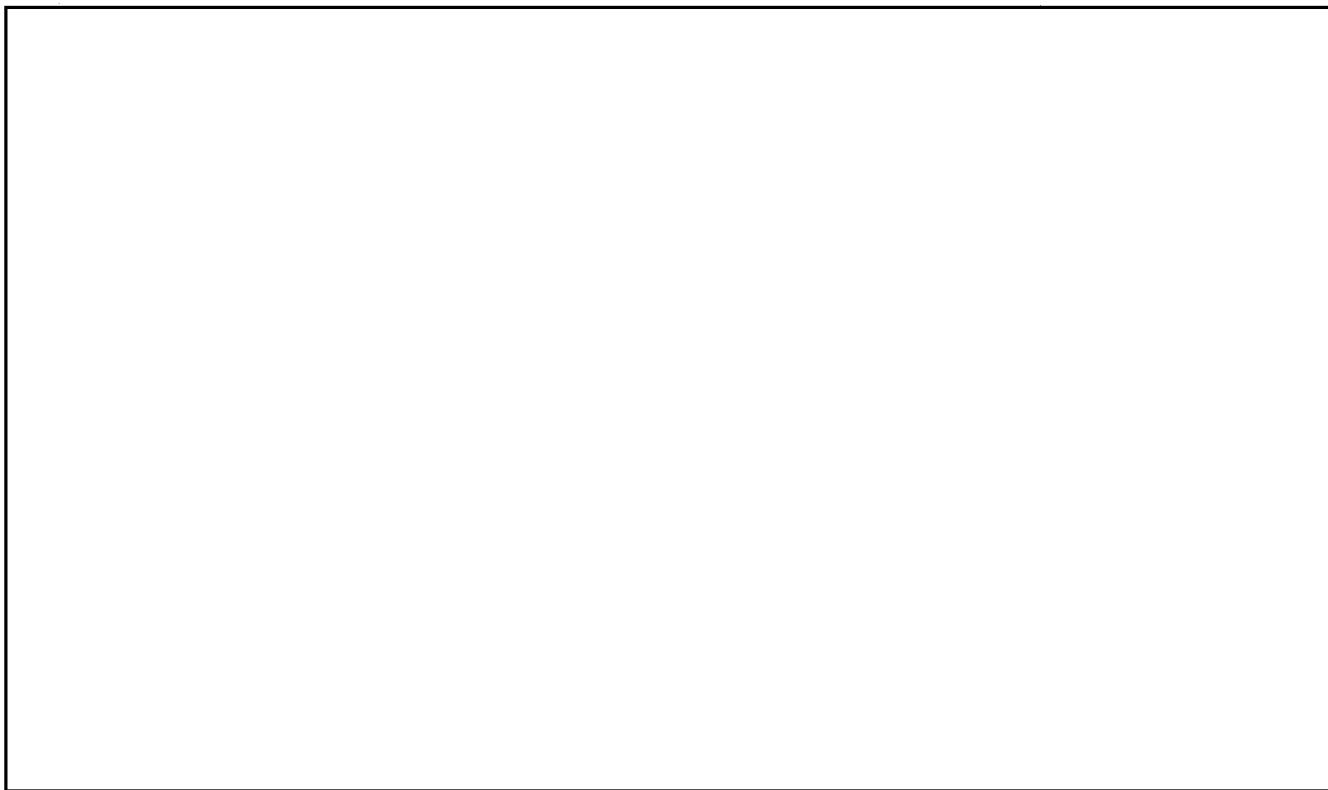
The Iranian Foreign Minister has told the US Ambassador that the contemplated oil sabotage law is aimed at Communists, not at the Anglo-Iranian Oil Company. He

pointed out further that the law had not been passed. Ambassador Grady says other Iranians have made statements along similar lines, and sees evidence of a more conciliatory attitude on the part of Mossadeq and his group.

Comment: Since Abadan refinery manager Drake has already been publicly accused of sabotage by a member of the Iranian commission taking over the oil installations, it seems unlikely that the sabotage law is being contemplated solely as a damper for Communist activities. Furthermore, whatever the original motives may have been, the Iranians could always use it against Anglo-Iranian Oil Company employees if they so desired. While the Iranian Prime Minister and his followers may be beginning to fear the consequences of their recent actions, there are few concrete indications that this fear is being translated into a more conciliatory attitude. Even if Iran should modify or withdraw its anti-sabotage law, such action would hardly allay British suspicions.

The Prime Minister's message of 28 June to President Truman restates at length the Iranian position and makes a bid for US support. The message does not, however, show any sign that Iran is willing to modify its demands.

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WESTERN EUROPE

6. Berlin trade agreements bogged down:

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The Western deputy commandants in Berlin have requested the approval of the Allied High Commission to write the chief Soviet representative in Berlin, proposing that

Soviet and Western experts meet on 5 July to discuss measures for preventing illegal trade and for ensuring the ~~normal~~ flow of Berlin's legal trade. The letter would express the hope that by that date Soviet authorities will have approved all outstanding West Berlin export permits, of which six thousand are now backlogged.

Meanwhile, according to the US High Commissioner, the interzonal trade negotiations became deadlocked

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on 25 June when the East German representative stated that he would refuse to tie the agreement on interzonal trade to that on the movement of goods out of West Berlin. The commandants advise that the West should be prepared to impose effective countermeasures, if they are required.

Comment: When the USSR relaxed its restrictions on West Berlin exports on 28 June, it apparently did so in the hope of coming to an early agreement on interzonal trade. Now that the trade talks suspended by the West during the height of the Berlin dispute have been reopened, the USSR appears to be less ready to allow Berlin exports to flow freely.

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